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January 2, 2013

Jocelyn G. Boyd  
Chief Clerk/Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia, SC 29210

**RE: Request for Approval for Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc. to Continue Participation in the Utility Money Pool Agreement;  
PSC Docket No. 2011-158-E**

Dear Mrs. Boyd:

In Order No. 2012-517 Approving Joint Dispatch Agreement (“JDA”), the Public Service Commission of South Carolina (“Commission”) conditioned its approval of the JDA on, among other things, Duke Energy Carolinas, LLC (“DEC”) and Progress Energy Carolinas, Inc.’s (“PEC”) guarantee that PEC’s and DEC’s retail customers would receive pro rata benefits equivalent to those approved by the North Carolina Utilities Commission (“NCUC”) in its Order ruling upon DEC’s and PEC’s Merger Application, including the protections of the revised Regulatory Conditions and Code of Conduct, to the extent allowable by South Carolina law. *Id.* at 41 ¶ 2.

DEC’s and PEC’s Regulatory Condition 7.7 provides that DEC and PEC must request authority to continue participating in the Utility Money Pool Agreement if Duke Ohio’s generation assets are no longer dedicated to serving retail load. Because under the terms of its most recently approved electric security plan (“ESP”), Duke Ohio procures all of the supply needed to serve its standard service offer through a competitive bidding process and the energy from its legacy generation assets is sold in the day-ahead/real-time market or through bilateral agreements, DEC and PEC respectfully submit this request. DEC and PEC’s support for this request is below.

Regulatory Condition 7.7 is designed to protect retail customers from potential risks and concerns related to finance and corporate governance arising from the merger between Duke Energy and Progress Energy.

Money Pool Agreement. Subject to the limitations imposed in Regulatory Condition 8.4, DEC and PEC may borrow through Duke Energy's "Utility Money Pool Agreement" (Utility MPA), provided as follows: (a) participation in the Utility MPA is limited to the parties to the Utility MPA dated November 1, 2008, as filed with the Commission on November 17, 2008, in Docket No. E-7, Subs 795A and 810, plus PEC, PEF [Progress Energy Florida, Inc.], Progress Energy, and PESC; and (b) the Utility MPA continues to provide that no loans through the Utility MPA will be made to, and no borrowings through the Utility MPA will be made by, Duke Energy, Progress Energy, and Cinergy Corp. If, after December 31, 2011, Duke Ohio's generation assets are no longer dedicated to serving retail load in its service territory and subject to the Electric Security Plan (as approved in Case No. 08-920-EL-SSO, *et al.*), and Duke Ohio continues to be a participant in the Utility MPA, then DEC and PEC shall seek Commission approval within six months of such occurrence, in order to continue participating in the Utility MPA. DEC and PEC shall discontinue such participation within six months after the issuance of a Commission order denying such approval.

#### **Status of Duke Ohio's Generation Assets**

On June 20, 2011, Duke Ohio submitted an application to the Public Utilities Commission of Ohio ("PUCO") for authority to establish a standard service offer, in the form of a new ESP. Thirty-two interested parties intervened in the proceeding, and the parties reached a Stipulation ("Ohio Stipulation") that was submitted to the PUCO on October 24, 2011. The PUCO approved the Ohio Stipulation on November 22, 2011.

The Stipulation provides for, *inter alia*, an ESP that includes provisions wherein Duke Ohio will procure energy, capacity, market-based transmission service, and market-based transmission ancillary services requirements for its standard service load, for the duration of the ESP (approximately three and a half years, beginning January 1, 2012), through a competitive bid procurement. The Stipulation also provides that Duke Ohio will transfer title, at net book value, to all of its generation assets out of Duke Ohio as soon as reasonably possible upon receipt of regulatory approvals, but in any event, no later than December 31, 2014. The Ohio Stipulation, as approved by the PUCO, provides that the parties supported Duke Ohio's request to waive the PUCO's rules relating to the sale or transfer of generating assets, and the PUCO's Order in the proceeding waived such rules and consented to the transfer.

Likewise, approval of the Ohio Stipulation by the PUCO included approval of full legal corporate separation such that the transmission and distribution assets of Duke Ohio will continue to be held by the distribution utility and all of the generation assets will be transferred to an affiliate. Additionally, the Ohio Stipulation approved by the PUCO directs that, following the transfer of the generation assets, Duke Ohio shall not, without prior PUCO approval: (1) provide or loan funds to, (2) provide any parental guarantee or other security for any financing for, and/or (3) assume any liability or responsibility for, any obligation of subsidiaries or affiliates that own generating assets.

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On April 2, 2012, Duke Ohio and the other affected affiliates filed an application seeking authority under section 203(a)(1) and section 203(a)(2) of the Federal Power Act with the Federal Energy Regulatory Commission ("FERC") to transfer the assets to the affiliates. By order issued September 5, 2012, the FERC approved the request.

**Request for Approval to Continue Participation in Utility MPA**

DEC and PEC request approval to continue participation in the Utility MPA which is attached as Exhibit A. The Agreement is an internal cash management agreement that allows DEC and PEC, as well as Duke Energy's other utility subsidiaries, to obtain least cost financing of their interim capital requirements. Because the Agreement gives both companies a lower cost of short-term funds as compared to the bank borrowings and commercial paper that are available, the Utility MPA benefits the South Carolina retail customers of both DEC and PEC.

**Conclusion**

As stated, energy from Duke Ohio's legacy generation assets is sold in the day-ahead/real-time market or through bilateral agreements, and it procures all of the supply needed to serve its standard service offer through a competitive bidding process. In addition, Duke Ohio remains a party to the Utility MPA. The Stipulation discussed above provides that all generation assets will be transferred by December 31, 2014. Upon completing this transfer of generation assets, Duke Ohio will be a traditionally regulated utility, without liability or financial responsibility for any non-regulated utility subsidiaries or affiliates owning generating assets, unless approved by the PUCO. Consequently, DEC and PEC request approval to continue to participate in the Utility MPA.

Sincerely,

A handwritten signature in blue ink that reads "Timika Shafeek-Horton/gw". The signature is fluid and cursive, with the initials "gw" at the end.

Timika Shafeek-Horton  
Deputy General Counsel

TSH/gw

cc: Parties of Record (*served via e-mail*)  
Nanette Edwards, ORS  
Courtney Edwards, ORS